

VZCZCXRO0746  
RR RUEHDBU RUEHPW RUEHSL  
DE RUEHBUL #1911/01 1990712  
ZNR UUUUU ZZH  
R 180712Z JUL 09  
FM AMEMBASSY KABUL  
TO RUEHC/SECSTATE WASHDC 0222  
INFO RUCNAFG/AFGHANISTAN COLLECTIVE

UNCLAS SECTION 01 OF 03 KABUL 001911

DEPARTMENT FOR SRAP, SCA/FO, SCA/A, EUR/RPM  
STATE PASS TO AID FOR ASIA/SCAA  
USFOR-A FOR POLAD

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [KDEM](#) [PGOV](#) [AF](#)

SUBJECT: Financial Management at the Provincial Level in Kandahar

¶1. Summary. The Afghan government's financial management at the provincial level in Kandahar has improved greatly over the past year with respect to financial and revenue accounting. However, the lack of a consultative budget planning process between ministries in Kabul and their departments in Kandahar remains an obstacle to efficient functioning of provincial-level government. Moreover, deficiencies in governmental functions such as private business registration and land titling limit the efficiency of revenue collection. Like many provincial departments throughout Afghanistan, chronic understaffing and low salaries directly impacts effectiveness and operations. End Summary.

¶2. While international advisors have worked with the Ministry of Finance (MoF) in Kabul for several years to increase transparency of national-level finance, revenue, and budgeting processes, little is known about financial management at the provincial level. In light of frequently reported problems with provincial line departments receiving and executing their budget allocations, and the need to increase revenue collection in the provinces, experts from the U.S. Department of the Treasury (UST), Office of Technical Assistance, visited Kandahar in order to ascertain the present state of financial management and to assess the ways in which USG technical assistance might be useful at the provincial level.

¶3. UST and Kandahar Provincial Reconstruction Team (KPRT) personnel visited Kandahar's Director of Finance ("Mastufi") at the headquarters of the provincial line Department of Finance ("Mastufiat") in Kandahar City July 1. The Mastufi, Ghulam Haider, had with him the heads of the Mastufiat's two sections: Zia Uddin, Head of Finance, and Samat, Head of Revenue. The Mastufiat is located in the relatively secure "Government Circle" area of Kandahar City, in an old but well-constructed and clean building with electricity and plumbing.

#### Kandahar Mastufiat Functions and Work Load

-----

¶4. The functions of the Mastufiat are 1) to receive, disburse, and cost account monies from the MoF allocated to line departments and the Afghan National Security Forces (ANSF), and 2) to implement the revenue code by collecting taxes and customs fees on behalf of the MoF. The Mastufiat is only responsible for "operating" budgets, not development budgets associated with specific donor-funded programs. The operating budgets consist of monies for 1) payrolls, and 2) goods and services. In Kandahar Province, the Mastufiat is responsible for approximately 20,000 ANSF salaries and 8754 civilian salaries. (Note: The number of ANSF salaries is high because Kandahar's Mastufiat handles payroll accounts for all military and civilian employees of the ANA 205 Corps, headquartered in Kandahar but deployed across the south in Zabul, Kandahar, Uruzgan, and Helmand.) The Mastufiat began paying ANSF salaries by direct deposit about one year ago. However, the system for paying civil servants by direct deposit has not yet come on line due, according to Haider, to the various ministries' failure to make necessary arrangements with banks and issue employee ID cards.

15. Concerning the Mastufiat's revenue function, Haider stated that revenues for the first quarter of 1388 were up 30 pct compared to the first quarter of 1387. He attributed this increase to his deployment of more tax collectors and more aggressive collection. The sources of revenue continue to be customs fees and taxes, the former being the larger. (Note: The Mastufiat has customs inspectors stationed at the Spin Boldak border crossing point.) The Mastufiat does not prepare tax bills for businesses and individuals; according to Haider, because businesses are generally not registered, the only way to collect taxes is for his staff to visit each place of business, evaluate the size and income of the business, and write up tax bills and receipts on the spot.

#### Kandahar Mastufiat Financial Management Procedures and Systems

-----

16. At the center of the Mastufiat's financial management procedures is the Afghan Financial Management Information System (AFMIS), a computerized system that came online in Kandahar about a year ago. AFMIS connects the Mastufiat with the MoF in Kabul in near real time, showing all finance and revenue transactions and automatically updated balances for all accounts. AFMIS also allows the Mastufiat to provide each Kandahar line department with a monthly transaction record and accounting sheet. Transactions that are not completed electronically (including all civil service salaries and all goods and services expenditures) are recorded on paper requisition, receipt, and voucher forms; clerical staff perform manual data entry of these the records into AFMIS. Apparently because the Mastufi and his staff do not fully trust AFMIS, they keep a paper master ledger as a back-up to record all transactions. Staff accountants use paper records to perform the traditional bookkeeping function of

KABUL 00001911 002 OF 003

bank reconciliation; that is, reconciling the banks' records of credits, debits, and balances with the data in AFMIS.

17. The AFMIS system includes a function for printing data on security-paper check forms. According to Haider, the forms and the access code for the check-printing function were only accessible to four staff members. As a management control, any department that submits a requisition for over AF 1,000,000 has to have the governor or his designee sign off on it. Asked about whether Provincial Council (PC) members attempted to exercise any fiscal oversight, Haider stated that PC members occasionally stopped by the Mastufiat, and that they were welcome to inspect the financial and revenue reports.

18. Finance Section Chief Zia Uddin, a young man, received one month of training at the MoF in Kabul on the use of AFMIS, and he, in turn, trained his assistants, who trained the data entry clerks. The older Revenue Section Chief, Samat, was less proficient with AFMIS, but evidently had younger assistants who worked with the system. In fact, all of the Mastufiat staff observed using computers were young men (though Haider claimed he had "a few" women on his staff); the older men worked exclusively with paper records.

#### Kandahar Mastufiat's Accomplishments

-----

19. Asked about his view of the Mastufiat's accomplishments and successes, Haider first put his reply into context by pointing out that the department had "started from zero" and that the MoF had given him little technical assistance over the years. Haider then stated that he could sum up the Mastufiat's progress in simple terms: Within the past year, largely thanks to AFMIS and drawing on the skills of his staff, he has become able to explain clearly to the other provincial departments their budgets and current accounts.

He also acknowledged that the MoF had over the past year become much better about making the departments' operating budget allocations available in a timely fashion. However, Haider said that he knew the recent improvement in financial management in Kandahar was only the beginning, and he noted several challenges his department faced.

#### Kandahar Mastufiat Staffing Issues

-----  
¶10. Haider explained that the MoF's official staffing pattern ("tashqil") for the Mastufiat authorized him a staff of 92 professionals and clerical workers (civil servants), and 37 contract laborers. He is at present short 29 employees in the professional/clerical category. (Note: All Kandahar line departments are staffed under their tashqils; the Mastufiat's ratio of authorized positions to employees is above average for the province. This is a widespread situation in both the central ministries and the provinces, due to the fact that the Tashqil is determined by the Civil Service Commission and the amount of budget provided by the Mof for salaries is usually less than the Tashqil.) According to Haider, he constantly attempts to recruit professional staff, but the salaries he is authorized to pay are not high enough to attract qualified persons. The average salary for professional staff at the Mastufiat is USD 121 per month. (Contract Laborers receive USD 60 per month, but there is no shortage of laborers.) Haider stated that he believed an average salary of USD 300 would be sufficient to attract the staff he needs, and would address as well the department's problem retaining employees. He was skeptical about the planned pay raises under the Priority Reform and Restructuring (PRR) civil service reform program for employees who pass the civil service exam, noting that a number of his employees had recently passed the exam but did not receive a pay raise; according to Haider, "That might be the case for employees in Kabul, but the central government does not follow its own rules when it comes to the provinces."

#### Training Issues

-----

¶11. Haider enthusiastically welcomed the idea of UST training and mentoring support for the Mastufiat. He complained that, although the MoF had provided training to several of his key staff members in Kabul, "the Afghan instructors just read out loud from books" and did not offer the trainees anything useful for their work in Kandahar. Haider also expressed a characteristic Southern scorn for the two "Adam Smith Fellows" whom the British Department for International Development (DFID) funds to work on capacity building at the Kandahar Mastufiat. He said the two Fellows were "useless" and "did nothing but sit around." Moreover, they had a negative effect on staff morale because it was known they were paid USD 1800 per month. (Note: It was evident from what Haider said that the two Fellows were Dari-speaking Tajiks, which in itself would practically rule out their ability to work effectively in the highly

KABUL 00001911 003 OF 003

conservative Pashtun culture of Kandahar.) Haider appeared open to UST's proposal to have American experts visit the Kandahar Mastufiat periodically to provide mentoring and guidance.

#### Vertical Communication Issues

-----

¶12. Haider cited another problem seems to affect every provincial line department: Lack of communication between the Ministries in Kabul and their provincial departments. In particular, Haider mentioned the lack of a consultative budget planning process. The MoF sets targets for revenue collection by the Kandahar Mastufiat that appear to Haider to be arbitrary, and makes salary and goods and services allocations to departments that do not correspond well to their actual requirements. In order to improve this situation, Haider suggested that a USDOT expert mediate a conference between the Kandahar Mastufiat and the MoF in order to work out a more effective budget planning process for all provincial departments.

#### Reality Check: The DRRD's Relationship with the Mastufiat

-----

¶13. Following the visit to the Mastufiat, UST and KPRT personnel visited the Kandahar provincial Department of Rural Rehabilitation and Development (DRRD) in order to evaluate the departmental financial management practices of this key department and their relationship to the Mastufiat. DRRD Director Abdul Latif Ashna and

his female Financial Management Officer, Nasima, provided information.

¶14. According to Ashna and Nasima, the Mastufiat was helpful and efficient about providing the DRRD with monthly reports as well as in disbursing funds as required in a timely fashion. The DRRD's financial management system is not computerized and is rudimentary, with only two object codes: salaries and goods and services. Like the Mastufiat, the DRRD only tracks its operating budget, not the development budget. Ashna and Nasima stated that the MRRD in Kabul sent their budget allocations to Kandahar in a timely fashion, but like Haider, Ashna complained that the allocations were largely arbitrary due to the lack of a consultative budget planning process.

Comment: Management Keeping Pace  
with Capacity Development  
-----

¶15. Though obviously inefficient in many respects - such as requiring ANSF and line department personnel to present requisitions personally at the Mastufiat to draw cash or checks for operating expenditures - the Mastufiat in Kandahar appears to run in an orderly, transparent fashion, with several management controls in place. With respect to its revenue collection function, the Mastufiat is performing well within the limitations of not having functioning private business registration or land title mechanisms in Kandahar for the purpose of preparing tax bills. In short, financial management problems at the provincial level in Kandahar are not due to deficiencies in the functioning of the Mastufiat, but rather to limited government capacity in other areas, and to the lack of a consultative budget planning process between Ministries and their provincial departments.

¶16. The MoF and its department in Kandahar can be a positive driving force in developing more effective provincial-level budgeting for all Ministries, and for establishing mechanisms to support improved revenue collection. The UST clearly has an opportunity to make a beneficial intervention in Kandahar in a mentoring role and as a mediator between central and provincial government institutions.

EIKENBERRY